Gysbers, Bridgot - PSC

From: Ignatowski, Timothy [Timothy.Ignatowski@milwaukee.gov]
Sent: Friday, October 23, 2009 11:18 AM
To: Gysbers, Bridgot PSC
Subject: RE: Milwaukee NIRB Initial Data Request
Attachments: BG_NIRB Initial Data Request Questions.doc; BG_NIRB Questions.xls

Note attachments. Any follow up questions, let me know.

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From: Gysbers, Bridgot PSC [mailto:Bridgot.Gysbers@psc.state.wi.us]
Sent: Mon 10/19/2009 11:02 AM
To: Ignatowski, Timothy
Subject: Milwaukee NIRB Initial Data Request

Tim,

I have been reviewing both Net Investment Rate Base (NIRB) and Revenues with respect to the Milwaukee water rate case. I have attached to this e-mail my additional questions that I have for NIRB. I figure I will send you what I have for now and when I finish my review of revenues I will send those questions to you. I suspect that won't be until possibly the end of next week.

Please do not hesitate to contact me as questions arise.

Thank you.

Bridgot

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Milwaukee Water Works
3720-WR-107
NIRB Initial Data Request
Document created by: Bridgot A. Gysbers, 10/07/2009

Utility Financed Plant

1. Attachment 11

    a. Account 346 Meters – A 2009 and 2010 addition was reported in the application in the amount of $158,000 and retirement of $5,670. In comparison to the last 4 years this is considerably lower. The 2007-2008 average for additions was $697,300 and $1,179,100 for retirements. The 2009 and 2010 estimates have not been that low the last 4 years. Is it possible that something occurred in 2007-2008 and now the utility does not expect to incur a high level additions and retirements going forward? Please explain.

    Answer – Upon further review, I forgot to include the AMR budgeted portion in 346.1 and 346.2. These amounts are budgeted under our O & M Budget (small meters, ERT's, and RTR's). The amounts included on the application are just for large meter purchases (included in the Equipment Budget). Therefore, please include the following amounts in 346.1 and 346.2 for 2009:

    346.1 - $220,000 for additions and $200,000 for retirements

    346.2 - $405,000 for additions and $613,000 for retirements

    Note file "BG_NIRB Questions", worksheet title "Question 1a".

    b. Account 346.1 Meters (AMR) – A 2010 addition of $5,000,000 and retirement of $1,250,000 was reported. Please explain this project in detail as to what the utility is doing? Why are there so few retirements? When will this project be complete? As noted in a separate question below it was noted that the utility has had depreciation broken out into 2 separate accounts, Meters and AMR. Please explain how this is broken down. Please justify for the current case why we should continue to break this down between the 2 accounts. Please clarify.

    Answer – In 2010, a $30 million AMR Replacement Program will be started. This is a six year program that will replace the water meter, the ERT, and the RTR. Approximately 156,000 water meters (for 5/8", 3/4", and 1") will be replaced or repaired. This program will be funded through operation

funds. In 1995, we started this original ARM project. However, the battery life expectancy of the ERT is coming to an end. All three units should last at least 18 years before we need to replace all three units again.

The retirement amount needs to be increased by $1,900,000. Note file "BG_NIRB Questions", worksheet title "Question 1b".

Back in 1995, the ERT's and RTR's had a much shorter life than the meter. So we had two separate accounts (346.1 &346.2) with different depreciation rates. Because of technology advancements, all three units (meter, ERT, and RTR) should last about the same time. Therefore, starting in 2010, we are requesting that these three be combined (in PSC 346) and that we use the PSC recommended benchmark depreciation rate of 5.5% or 18 years.

c. Account 397.1 SCADA Equipment – A 2009 addition was reported in the application in the amount of $2,000,000 and retirement of $3,584,675. Please identify the major items included in the addition and retirement. Show the dollars associated with each item and state what construction authorization the addition and retirement relates to. Please also explain the project and why 2009 was more unusual with incurring this type of expense.

Answer – SCADA is a high level system that monitors the infrastructure process of water treatment and water distribution. This system is the foundation for automation of the treatment plants and booster stations. It allows for real time monitoring and control of all plant process activities. The original 1998 system has become inefficient and obsolete. The new system is less expensive because of technology advancements. The construction authorization for this project is 3720-CW-113. Note file "BG_NIRB Questions", worksheet title "Question 1c".

2. Construction Approvals 3720-CW-116 and 3720-CW-117

a. Please indicate when 3720-CW-116 and 3720-CW-117 is expected to be placed in service and in use? I am assuming you included the dollars for both these construction approvals on Attachment 11 as both 2009 and 2010 plant additions, is this correct?

Answer – It usually takes from 1 to 3 years (sometimes longer) for our plant projects to be completed and capitalized. Yes I did, but for only a couple of projects. Note the explanation under point b below.

b. Staff summed the approval amount from 3720-CW-116 and 3720-CW-117 which came to $27,173,000. The plant additions reported on attachment 11 for accounts 325, 331, 332, 390, and 397 totaled only $10,429,000. Staff used those accounts since those are the ones that were noted in both construction approvals. Please explain why the project costs reported on Attachment 11 are significantly lower than the approval amount. Did I not include some dollars on Attachment 11 that should have been? Please explain.

Answer – Even though the Common Council approves these projects and we want to do all of them, we can't because of financial restrictions. Only a small number of these projects will be completed. I checked with our chief engineer and superintendent and only included the projects that will absolutely be done within the 2010 test year. The rest of them are on our wish list. They will be done only if there are enough financial resources or the project becomes a necessity.

3. Depreciation

a. It was noted in the last rate case that for several account that a different depreciation rate was used when compared to our benchmarks. The rates are as follows:

		Authorized Rates Last Rate Case	Current Case	Benchmarks
343	Mains	1.10%	1.30%	1.0 - 1.3%
346.1	Meters	3.70%	5.50%	4.0% - 6.3%
346.2	Meters - AMR	8.30%	5.50%	8.3% per prior rate case
391.1	Computers	15.00%	26.70%	20.0% - 33.3%
397	SCADA	10.00%	9.20%	8.3% - 10.0%

For the current case which depreciation rate does the utility want to go with. In particular, please explain why we should break down meters into 2 separate accounts? Please explain.

Answer - We would like to use all of the current case rates. Starting in 2010, as noted previously, we no longer need two accounts for meters.

b. Attachment 12 shows and estimated customer account depreciation allocated to the sewer department in the amount of $451,610 for 2009 and $434,792 for 2010. Please provide a copy of your analysis on how you arrived at both your 2009 and

2010 estimate. Does the allocation include the allocation for garbage collection and the storm sewer? If not, please explain why those allocations are not included.

Answer – The $451,610 for 2009 and the $434,792 for 2010 are for 2006 and 2007, respectively. Note the last rate case (3720-WR-106), attachment 12, page 2. The amounts for this rate case are $689,946 for 2009 and $874,733 for 2010. Note file "BG_NIRB Questions", worksheet title "Question 3b". I included the garbage collection and storm sewer in my allocation.

Tim Ignatowski – Milwaukee Water Works

10/23/09

Milwaukee Water Works -
3720-WR-107
Meters PSC 346 (Question 1a)

	346.1 Meters	346.2 ERT and RTR		
2009 Budget Amounts -	**220,000**	**405,000**		

Retirements -	346.1 Meters	346.2 ERT	346.2 RTR	346.2 Total
5/8"	112,680	301,600	218,000	519,600
3/4"	23,480	37,700	27,250	64,950
1"	4,950	5,655	4,088	9,743
1 1/2"	57,810	18,850	13,625	32,475
Total	198,920	363,805	249,338	613,143
Retirement per year - rounded	**200,000**			**613,000**

Milwaukee Water Works -
3720-WR-107
Meters PSC 346.1 - AMR (Question 1b)

	Number	Replace	Repair
5/8"	109,000	109,000	0
3/4" (20% replace - 80% repair)	42,000	8,400	33,600
1" (20% replace - 80% repair)	5,000	1,000	4,000
Total	156,000	118,400	37,600

Retirements -	Meters	ERT	RTR	Total
5/8"	3,070,530	8,218,600	5,940,500	17,229,630
3/4"	394,464	633,360	457,800	1,485,624
1"	66,000	75,400	54,500	195,900
Total	3,530,994	8,927,360	6,452,800	18,911,154

Six year program - retirement per year	3,151,859
Retirement per year - rounded	3,150,000
Application amount - PSC 346.2 for 2010	1,250,000
Add to retirement amount for 2010	**1,900,000**

Milwaukee Water Works -
3720-WR-107
SCADA (Question 1c)

2009 - New SCADA System

Linnwood Plant -	Contract Amount*
Software, Equipment, & Installation	374,000
Application Engineering	327,841
Project Management	54,530
Howard Plant -	
Software, Equipment, & Installation	387,027
Application Engineering	264,640
Project Management	43,840
Booster Stations - (Flow Monitoring)	205,463
Total	**1,657,341**

* The final costs (that include engineering and other costs) will not be available until year end.

Retirements -	
Linnwood Plant (Hardware,software,services, training)	1,245,597
Howard Plant (Hardware,software,services, training)	1,185,858
Booster Stations (Hardware,software,services, training)	1,152,856
Total	**3,584,311**

Milwaukee Water Works -
3720-WR-107
Depreciation Expense (Question 3b)

2007 Sewer Reimbursement (Dep Expense)	1,759,944	Actual
2008 Sewer Reimbursement (Dep Expense)	1,733,978	Actual
2009 Sewer Reimbursement (Dep Expense)	1,700,000	Guess estimate
2010 Sewer Reimbursement (Dep Expense)	1,700,000	Guess estimate

	2009	2010
Sewer Reimbursement Estimates	1,700,000	1,700,000
Meter allocation (actual)	1,010,054	825,267
Customer Accounts allocation (adjusted)	**689,946**	**874,733**

I used the Customer Accounts allocation number to tie to my original estimate.